Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Harborview Medical Center

King County

Audit Period
July 1, 2008 through June 30, 2009

Report No. 1003205

Issue Date
March 22, 2010

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

March 22, 2010

Board of Trustees
Harborview Medical Center
Seattle, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Harborview Medical Center's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Center's financial condition.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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King County
July 1, 2008 through June 30, 2009

Federal Summary

Harborview Medical Center
King County
July 1, 2008 through June 30, 2009

The results of our audit of Harborview Medical Center are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Center.

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- **Material Weaknesses:** We identified no significant deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the Medical Center’s compliance with requirements applicable to its major federal programs.

We reported no findings that are required to be disclosed under OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.235	Supportive Housing Program
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers)
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $300,000.

The Center qualified as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Harborview Medical Center
King County
July 1, 2008 through June 30, 2009

Board of Trustees
Harborview Medical Center
Seattle, Washington

We have audited the basic financial statements of Harborview Medical Center, King County, Washington, as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated March 10, 2010.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of the Center's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Board of Trustees, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 10, 2010

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Harborview Medical Center
King County
July 1, 2008 through June 30, 2009

Board of Trustees
Harborview Medical Center
Seattle, Washington

COMPLIANCE

We have audited the compliance of Harborview Medical Center, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2009. The Center's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Trustees, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 10, 2010

Independent Auditor's Report on Financial Statements

Harborview Medical Center
King County
July 1, 2008 through June 30, 2009

Board of Trustees
Harborview Medical Center
Seattle, Washington

We have audited the accompanying basic financial statements of Harborview Medical Center, King County, Washington, as of and for the years ended June 30, 2009, and 2008, as listed on page 9. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harborview Medical Center, as of June 30, 2009 and 2008, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 10 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

March 10, 2010

Financial Section

Harborview Medical Center
King County
July 1, 2008 through June 30, 2009

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2009 and 2008

BASIC FINANCIAL STATEMENTS

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SUPPLEMENTAL INFORMATION

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HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)
Management's Discussion and Analysis
June 30, 2009 and 2008
(Dollar amounts in thousands)

Introduction

This discussion and analysis provides an overview of the financial position and activities of Harborview Medical Center (the Medical Center) for the years ended June 30, 2009, 2008 and 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes that follow this section.

Results of Operations

The Medical Center reported income from operations of $5,749, $12,513 and $7,344 for fiscal years ended June 30, 2009, 2008 and 2007, respectively. The reduction in operating income for the current year is primarily attributable to the addition of significant operating expenses associated with opening new beds and operating rooms during the fiscal year with expected patient volumes not occurring as quickly as anticipated. Key contributors to the financial results are described below.

- ***Opening of the Norm Maleng Building***

  The Medical Center began operations of the Norm Maleng Building in August of 2008. The opening was delayed by one month compared to the original plan. The nine story building added fifty additional inpatient beds and eight new operating rooms. The additional beds brought the Medical Center's bed capacity up to 413, which is its licensed limit. The new operating rooms increased surgical capacity by fifty percent over the previous capacity of 16 operating rooms. The start up and capital related costs associated with opening the building were approximately $12 million. While inpatient days did not increase from fiscal year 2008 to fiscal year 2009, surgery cases did increase by 7%. Patient days and surgery cases, however, were less than the volumes budgeted for the year.

- ***Opening of the Ninth and Jefferson Building (NJB)***

  In addition to the Maleng Building, the Medical Center also began occupying the NJB, a fourteen story medical office building that includes over 440,000 square feet of clinical and office space. The occupancy of the building will be substantially complete by December of 2009. The additional costs associated with moving into and occupying the NJB in fiscal year 2009 were approximately $4 million.

- ***Implementation of Expense Reduction Strategies***

  Significant financial losses in the months of November and December of 2008 resulted in a number of expense reduction strategies being implemented. Full time equivalent employees were reduced from 4,729 in the month of November to 4,592 in the month of June. The reduction was primarily achieved through reductions of overtime and contract labor. In addition, restrictions on travel and capital spending were instituted. Organizational efficiencies were achieved by consolidating positions and programs within the Medical Center as well as across UW Medicine. Through implementation of these strategies and others the Medical Center was able to achieve positive income from operations in the months from March through June.

(Dollar amounts in thousands)

- ***Fluctuations in Payer Mix and Case Mix Index***

  The Medical Center experienced large monthly variations in payer mix during the year. Compared to a budget of 12% of its revenue being generated from unsponsored patients, the months of November and December were 14% and 16%, respectively. This increase in unsponsored patients was a large contributor to the losses in those two months, but returned to budgeted levels by the end of the year. The Medical Center's case mix index, which is an indicator of the acuity of its patients and a driver of reimbursement, also fluctuated significantly during the year. For the fiscal year the index was three percent lower than budget, which contributed to lower than expected revenues.

Volumes and Statistics

Following are key operating statistics for the years ended June 30:

Medical Center Key Operating Statistics

	2009	2008	2007
Available beds	402	368	368
Admissions	19,424	18,597	18,538
Patient days	136,687	136,662	133,345
Occupancy	93%	101%	99%
Surgery cases	13,455	12,630	12,583
Emergency room visits	65,515	68,987	76,491
Outpatient clinic visits	224,769	230,315	218,229
Full time equivalent employees	4,626	4,425	4,336

Admissions, patient days, surgery cases, outpatient clinic visits and full time equivalent employees increased while emergency room visits decreased between 2007 and 2009. Over the last five years, admissions have increased by 2%, emergency room visits have decreased 25% and outpatient visits have increased 1%. The decrease in emergency room visits is attributed to the need to use that area for increases in inpatient volumes while diverting less acute patients to other community hospitals and healthcare resources.

Overview of the Financial Statements

The balance sheets, the statements of revenues, expenses, and changes in net assets, and statements of cash flows provide an indication of the Medical Center's financial health. The balance sheets include all the Medical Center's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets can be utilized for operations and which are restricted as a result of a donor's or third party's restricted purposes. The statements of revenues, expenses, and changes in net assets report all of the revenues and expenses during the time period indicated. The statements of cash flows report the cash provided by the operating activities, as well as other cash sources such as investment income and cash payments for capital additions and improvements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Management's Discussion and Analysis

June 30, 2009 and 2008

(Dollar amounts in thousands)

Financial Statements

Following is a presentation of certain condensed financial information derived from the financial statements:

Medical Center Summary Assets, Liabilities, and Net Assets

		June 30		
		2009	2008	2007
Assets:				
Current assets:				
Cash and cash equivalents	$	114,500	124,464	90,149
Patient accounts receivable, net		103,932	101,035	100,322
Other current assets		23,997	20,246	20,951
Total current assets		242,429	245,745	211,422
Concurrent assets:				
Capital assets, net		423,548	418,752	360,147
Assets whose use is limited		99,920	100,761	154,458
Other noncurrent assets		8,412	7,700	10,617
Total noncurrent assets		531,880	527,213	525,222
Total assets	$	774,309	772,958	736,644
Liabilities:				
Current liabilities:				
Current portion of long-term debt	$	718	673	1,084
Other current liabilities		99,438	110,509	92,396
Total current liabilities		100,156	111,182	93,480
Noncurrent liabilities		12,631	11,902	12,769
Total liabilities		112,787	123,084	106,249
Net assets:				
Invested in capital, net		421,948	411,077	352,318
Expendable, restricted		20,734	18,172	89,692
Nonexpendable, restricted		2,372	2,012	1,920
Unrestricted		216,468	218,613	186,465
		661,522	649,874	630,395
Total liabilities and net assets	$	774,309	772,958	736,644

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)
Management's Discussion and Analysis
June 30, 2009 and 2008
(Dollar amounts in thousands)

Medical Center Summary Revenues, Expenses, and Changes in Net Assets

		Years ended June 30		
		2009	2008	2007
Net patient service revenues	$	628,082	590,091	531,868
State support		7,934	7,740	10,174
Interest in ALNW		714	(2,916)	(2,935)
Other revenues		41,747	39,309	35,538
Total operating revenues		678,477	634,224	574,645
Salaries and benefits		393,710	373,306	346,669
Supplies and purchased services		243,403	222,259	196,151
Depreciation and amortization		35,615	26,146	24,481
Total operating expenses		672,728	621,711	567,301
Income from operations		5,749	12,513	7,344
Nonoperating revenues (expenses):				
Interest income, net		2,033	9,107	7,865
Interest expense		(347)	(323)	(435)
Donations and other income		3,410	3,134	2,632
Nonoperating expenditures		(1,909)	(2,624)	(2,271)
Unrealized gains (losses) and other, net		3,318	(4,040)	1,022
Nonoperating income		6,505	5,254	8,813
Income before capital contributions and additions to permanent endowments		12,254	17,767	16,157
Capital contributions, additions to permanent endowments, realized losses on impaired investments and other changes in net assets		(606)	1,712	6,974
Total increase in net assets	$	11,648	19,479	23,131

Financial Analysis

Balance Sheets – Assets

The Medical Center had total assets of approximately $774,309, $772,958 and $736,644 as of June 30, 2009, 2008 and 2007, respectively.

As of June 30, 2009, total assets were comprised of: 15% in current cash and cash equivalents, 16% related to receivables and other current assets, 55% invested in capital assets (e.g. buildings and equipment), and 14% related to assets whose use is limited and other noncurrent assets. As of June 30, 2008, total assets were comprised of: 16% in current cash and cash equivalents, 16% related to receivables and other current assets, 54% invested in capital assets (e.g. buildings and equipment), and 14% related to assets whose use is limited and other noncurrent assets. As of June 30, 2007, total assets were comprised of: 12% in current cash and cash equivalents, 17% related to receivables and other current assets, 49% invested in capital assets (e.g. buildings and equipment), and 22% related to assets whose use is limited and other noncurrent assets.

The Medical Center maintained operating cash and cash equivalents of $114,500, $124,464 and $90,149 in addition to long-term cash and investments whose use is limited of $99,920, $100,761 and $154,458 as of June 30, 2009, 2008 and 2007, respectively. Included in assets whose use is limited are $71,646, $72,438 and $82,760 of cash that has been designated by the Board of Trustees (the Trustees) for specific purposes as of June 30, 2009, 2008 and 2007, respectively. The Medical Center's total days cash on hand, including long-term investments, decreased 43 days from 155 to 112 from June 30, 2007 to June 30, 2009, primarily due to expenditures made during the two years for capital projects.

Patient accounts receivable represent 43%, 41% and 47% of current assets as of June 30, 2009, 2008 and 2007, respectively. Gross days' revenue in patient accounts receivable decreased to 85 in 2009 from 87 in 2008 and 97 in 2007. Patient accounts receivable are comprised of $299,136, $277,925 and $237,191 of gross receivables and contractual and bad debt reserves of $195,204, $176,890 and $136,869 as of June 30, 2009, 2008 and 2007, respectively. Net patient accounts receivables of approximately $103,932, $101,035 and $100,322 as of June 30, 2009, 2008 and 2007, respectively, represents the estimated net realizable value of amounts due from patients and their insurers for health care services.

Capital assets, including buildings and equipment, are the single largest asset of the Medical Center. For the years ended June 30, 2009, 2008 and 2007, approximately $40,604, $85,342 and $88,297, respectively, were added to buildings, equipment, and construction in progress. In fiscal year 2009, capital investments included completion of the Norm Maleng Building, replacement of equipment, project costs in anticipation of implementing a new patient billing system as well as additional integrated functionality of the Medical Center's electronic medical record.

Assets whose use is limited include Board designated and restricted investments. As of June 30, 2009, 2008 and 2007, the Medical Center had Board designated cash and other investments of approximately $74,582, $75,435 and $85,914, respectively. These amounts include cash, long-term investments, and certain capital assets. Board designated cash and investments are used by the Medical Center to fund strategic initiatives, capital improvements, and to purchase equipment. Restricted investments are amounts restricted by donors or other third parties for operations and capital expenditures. Donor restricted cash and investments of approximately $10,467, $9,627 and $7,842, at June 30, 2009, 2008 and 2007, respectively, are also included in this category.

The Medical Center's investments restricted for capital expenditures decreased to $14,871 as of June 30, 2009 from $15,699 as of June 30, 2008 and $60,702 as of June 30, 2007. Restricted investments include approximately $12,732 in bond funds as of June 30, 2009 as compared to $13,839 as of June 30, 2008 and $56,901 as of

June 30, 2007 for bond funds issued in September of 2004 by King County. These bond issues were approved by King County voters in September of 2000 in the amount of $193,000 to construct new and modify existing facilities to address seismic concerns and provide additional patient care capacity through 2010. In addition to the bond funds, Medical Center reserves and interest income on bond funds were set aside to provide funding to the project. Repayment of the bond funds will occur through tax revenues collected by King County as authorized by the voters.

In September 2006, the Trustees approved financing the Ninth and Jefferson Building (NJB) using a 63-20 model. Under the 63-20 model, King County entered into a 26.5–year lease with the building owner, Ninth & Jefferson Properties. The lease qualifies for capital lease treatment and, as such, the building and related lease obligation are recorded by King County based upon the terms of the agreement. The Medical Center has entered into an annual lease arrangement with King County to utilize this facility. As a result, the funds that the Medical Center had set aside for the NJB portion of the bond project of approximately $36.9 million were no longer needed and were transferred to Capital Program Reserves in 2006.

Other noncurrent assets increased $712, decreased $2,917 and decreased $2,937 during the years ended June 30, 2009, 2008 and 2007, respectively. The increase in fiscal year 2009 and decreases in fiscal years 2007 and 2008 are due primarily to the Medical Center's interest in Airlift Northwest (ALNW), which sustained a profit in fiscal year 2009 but losses in fiscal years 2007 and 2008.

Balance Sheets – Liabilities

The Medical Center has approximately $112,787, $123,084 and $106,249 of liabilities as of June 30, 2009, 2008 and 2007, respectively. As of June 30, 2009, 2008 and 2007, 89%, 90% and 88%, respectively, of the liabilities are current and 11%, 10% and 12%, respectively, are long-term liabilities. The long-term liabilities consist primarily of debt. Current liabilities include payables to employees, vendors, and other third parties as well as the current portion of long-term debt.

Long term debt as of the years ended June 30, 2009, 2008 and 2007 consists of bonds issued by King County.

Balance Sheets – Net Assets

The Medical Center reports its net assets in three categories:

Invested in Capital Assets Net of Related Debt – Total investment in Medical Center property, plant, and equipment net of accumulated depreciation and outstanding debt obligations related to those capital assets.

Restricted Expendable and Nonexpendable Net Assets – Restricted expendable net assets represent resources that the Medical Center is legally or contractually obligated to spend in accordance with restrictions placed by donors and/or external parties that have placed time or purpose restrictions on the use of the asset. Restricted nonexpendable net assets represent resources that the Medical Center may not spend as the donor and/or external parties have placed a restriction on preservation of the assets.

Unrestricted Net Assets – All other funds available to the Medical Center that do not meet the definition of restricted or invested in capital net of related debt.

Revenues, Expenses, and Changes in Net Assets

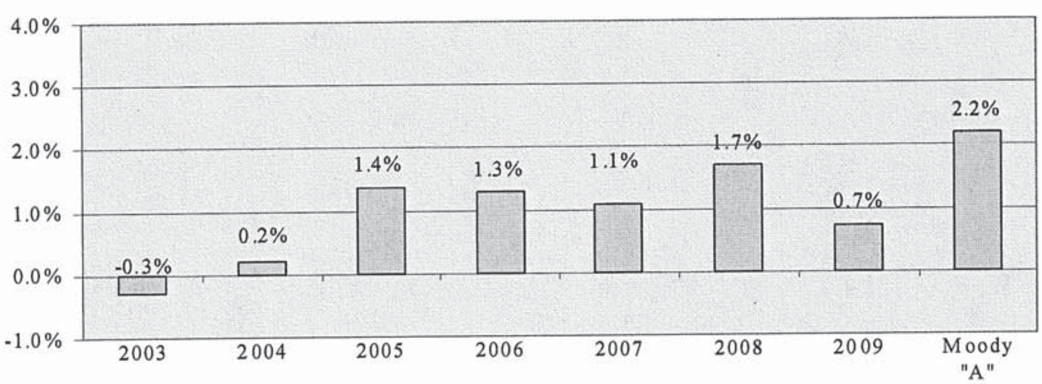
The statements of revenues, expenses and changes in net assets are divided into three categories:

(1) Income from operations, (2) nonoperating income, and (3) capital contributions, additions to permanent endowments and other changes in net assets. Each category is discussed in the following sections.

(1) Income from Operations

For the years ended June 30, 2009, 2008 and 2007 the Medical Center had income from operations of approximately $5,749, $12,513 and $7,344, respectively. As required by governmental accounting standards, the Medical Center has reflected interest expense as a nonoperating expense. Industry practice for health care entities not subject to governmental accounting standards is to reflect interest expense and bad debt as an operating expense. The Medical Center's income from operations, including interest expense, is approximately $5,402, $12,190 and $6,909 for the years ended June 30, 2009, 2008 and 2007, respectively. The graph below shows a comparison of recent operating margins, including interest expense and provision for uncollectible accounts in operating expenses, with Moody's A 2008 rated hospital median (published in August 2009).

The Medical Center Operating Margin FY03-FY09



Revenues

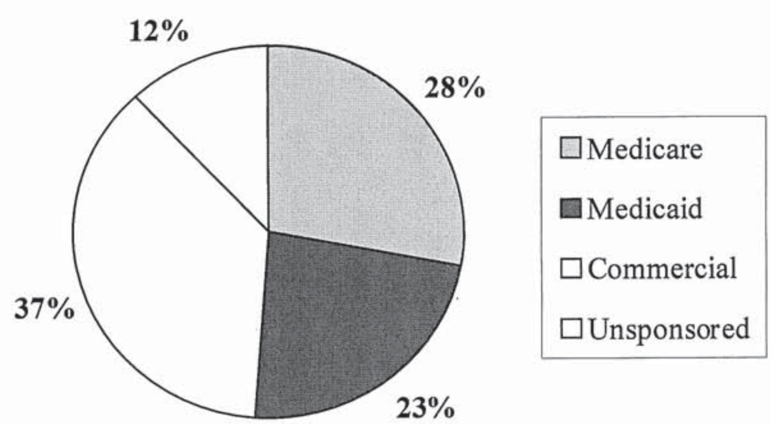
For the years ended June 30, 2009, 2008 and 2007 the Medical Center had operating revenues of approximately $678,477, $634,224 and $574,645, respectively. Operating revenues consist of net patient revenues, a state appropriation designated for education of health professionals, and other operating revenues. During fiscal years 2009, 2008 and 2007, Medical Center operating revenues increased 7%, 10%

and 6%, respectively, over the prior years. Increases in 2009 and 2008 related primarily to volumes, payer mix and price changes. Operating revenues include approximately $714, ($2,916) and ($2,935) representing the Medical Center's share in the net income (loss) of ALNW for fiscal years 2009, 2008 and 2007, respectively.

The Medical Center has agreements with government and other third-party payers that provide for payments at amounts different than gross charges. The difference between gross charges and the estimated net realizable amounts from payers is recorded as an adjustment to charges. The resulting net patient revenues are shown on the statements of revenues, expenses, and changes in net assets.

The graphs below show the Medical Center's payer mix based on gross revenues for the years ended June 30, 2009, 2008 and 2007.

FY 2009



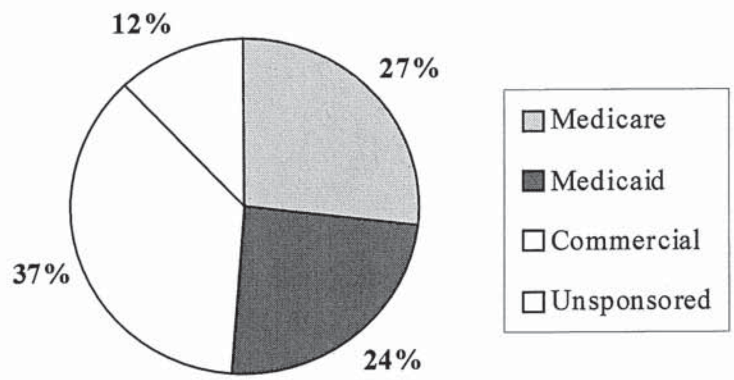
HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Management's Discussion and Analysis

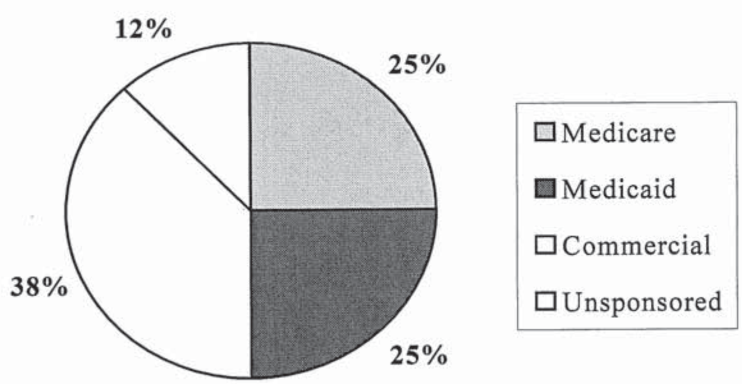
June 30, 2009 and 2008

(Dollar amounts in thousands)

FY 2008



FY 2007



Expenses

Operating expenses totaled approximately $672,728, $621,711 and $567,301 for the years ended June 30, 2009, 2008 and 2007, respectively. During fiscal years 2009, 2008 and 2007, the Medical Center's operating expenses increased 8%, 10% and 6%, respectively, over the prior years. During fiscal years 2009, 2008 and 2007, labor expenses accounted for 59%, 60% and 61%, respectively, of operating expenses, with supplies and other expenses accounting for 36%, 36% and 35%, respectively, and 5%, 4% and 4% related to depreciation and amortization, respectively. The increase in operating expenses relates to changes in salary levels and benefits for hospital staff during the year, increases in FTE's, inflation in the cost of medical supplies as well as an increase in depreciation expense as a result of the opening of the Norm Maleng Building.

(2) Nonoperating Income

The Medical Center recognized $6,505, $5,254 and $8,813 of nonoperating income for the years ended June 30, 2009, 2008 and 2007, respectively, consisting of interest income and expense, donations, nonoperating expenses and unrealized gains and losses on investments. During fiscal years 2009, 2008 and 2007 the Medical Center recognized $3,410, $3,134 and $2,632, respectively, in donations and other income, which includes contributions and donations restricted by the donors for various purposes. Investment income, including interest income and unrealized gains and losses, increased $268, decreased $3,748 and increased $4,049, during fiscal years 2009, 2008 and 2007, respectively. This decrease during fiscal year 2008 was due to impairment of certain investments, while the increase during fiscal year 2007 is due to increases in interest rates and cash available with a majority of the increase relating to board designated assets. Additionally, as a result of adopting the 63-20 model for the NJB, $1,027 of interest earned on the Medical Center's contributions to the project was recognized as interest income during the year ended June 30, 2007.

(3) Net Assets

As of June 30, 2009, net assets increased by $11,648 over the prior year. Included in this increase is $12,254 of net income and ($606) related to other changes in net assets including additions to permanent endowments.

As of June 30, 2008, net assets increased by $19,479 over the prior year. Included in this increase is $17,767 of net income and $1,712 related to other changes in net assets including additions to permanent endowments.

As of June 30, 2007, net assets increased by $23,131 over the prior year. Included in this increase is $16,157 of net income and $6,974 related to other changes in net assets including additions to permanent endowments.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Balance Sheets

June 30, 2009 and 2008

(Dollar amounts in thousands)

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	114,500	124,464
Deposit with University of Washington		775	1,033
Patient accounts receivable, less allowance for uncollectible accounts of $25,777 in 2009 and $34,415 in 2008		103,932	101,035
Interest receivable		151	301
Other receivables		14,927	11,390
Supplies inventory, at cost		7,172	6,635
Prepaid expenses		972	887
Total current assets		242,429	245,745
Noncurrent assets:			
Capital assets, net of accumulated depreciation		423,548	418,752
Deposit with University of Washington		600	600
Assets whose use is limited		99,920	100,761
Other assets		7,812	7,100
Total noncurrent assets		531,880	527,213
Total assets	$	774,309	772,958
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt	$	718	673
Current portion of deferred rent		175	175
Accrued payroll, vacation, and compensatory time		34,053	30,435
Accounts payable and accrued expenses		34,482	33,638
Payable to contractual agencies, net		8,619	21,393
Payable to University of Washington		22,109	24,868
Total current liabilities		100,156	111,182
Noncurrent liabilities:			
Deferred revenue		284	424
Deferred rent, net of current portion		6,070	4,476
Long-term debt, net of current portion		6,277	7,002
Total liabilities		112,787	123,084
Commitments and contingencies (note 12)			
Net assets:			
Invested in capital assets, net of related debt		421,948	411,077
Expendable, restricted		20,734	18,172
Nonexpendable, restricted		2,372	2,012
Unrestricted		216,468	218,613
Total net assets		661,522	649,874
Total liabilities and net assets	$	774,309	772,958

See accompanying notes to financial statements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

(Dollar amounts in thousands)

		2009	2008
Operating revenues:			
Net patient service revenues (net of provision for uncollectible accounts of $57,340 in 2009 and $76,271 in 2008)	$	628,082	590,091
State appropriation		7,934	7,740
Other operating revenues		42,461	36,393
Total operating revenues		678,477	634,224
Operating expenses:			
Salaries and wages		312,752	293,814
Employee benefits		80,958	79,492
Supplies and other expenses		243,403	222,259
Depreciation		35,615	26,146
Total operating expenses		672,728	621,711
Income from operations		5,749	12,513
Nonoperating revenues (expenses):			
Interest income, net		2,033	9,107
Interest expense		(347)	(323)
Donations and other income		3,410	3,134
Nonoperating expenditures		(1,909)	(2,624)
Unrealized gain (loss) on investments, net		3,048	(4,294)
Other, net		270	254
Nonoperating income, net		6,505	5,254
Income before capital contributions, additions to permanent endowments, and other changes in net assets		12,254	17,767
Capital contributions, additions to permanent endowments, and other changes in net assets:			
Capital contributions		157	1,610
Realized losses on impaired investments		(1,134)	—
Additions to permanent endowments		371	102
Total capital contributions, additions to permanent endowments, and other changes in net assets		(606)	1,712
Increase in net assets		11,648	19,479
Net assets – beginning of year		649,874	630,395
Net assets – end of year	$	661,522	649,874

See accompanying notes to financial statements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Dollar amounts in thousands)

		2009	2008
Cash flows from operating activities:			
Cash received for patient services and other	$	672,569	636,945
Cash paid to employees and suppliers		(654,491)	(582,626)
Net cash provided by operating activities		18,078	54,319
Cash flows from noncapital financing activities:			
Donations received		3,410	3,134
Nonoperating expenditures		(1,909)	(2,624)
Additions to endowments		371	102
Nonoperating revenue		265	249
Net cash provided by noncapital financing activities		2,137	861
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(673)	(1,084)
Cash paid for interest		(351)	(398)
Loss on disposal of capital assets		193	591
Capital expenditures		(34,293)	(80,094)
Capital contributions		157	1,610
Net cash used in capital and related financing activities		(34,967)	(79,375)
Cash flows from investing activities:			
Net decrease in assets whose use is limited		2,755	49,403
Investment income		2,033	9,107
Net cash provided by investing activities		4,788	58,510
(Decrease) increase in cash and cash equivalents		(9,964)	34,315
Cash and cash equivalents, beginning of year		124,464	90,149
Cash and cash equivalents, end of year	$	114,500	124,464
Reconciliation of excess of income from operations to net cash provided by operating activities:			
Income from operations	$	5,749	12,513
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Provision for uncollectible accounts		57,340	76,271
Depreciation		35,615	26,146
Interest in Airlift Northwest		(714)	2,916
Net increase in current assets, except cash and cash equivalents		(63,988)	(76,279)
Net (decrease) increase in current liabilities, except current portion of long-term debt		(17,378)	12,939
Decrease in deferred revenue		(140)	(11)
Increase (decrease) in deferred rent		1,594	(176)
Total adjustments		12,329	41,806
Net cash provided by operating activities	$	18,078	54,319
Supplemental disclosure of cash flow information:			
Accruals for capital	$	12,877	6,566

See accompanying notes to financial statements.

HARBORVIEW MEDICAL CENTER
(A Component Unit of King County)
(Operated by the University of Washington)

Notes to Financial Statements

June 30, 2009 and 2008

(Dollar amounts in thousands)

(1) Organization

Harborview Medical Center (the Medical Center) is a 413 licensed-bed hospital with extensive ambulatory services and is a component unit of King County operating in Seattle, Washington. The Medical Center does not have any component units within its activities. The Medical Center is managed by the University of Washington (the University) under a management contract between the Board of Trustees (the Trustees) of the Medical Center and the Board of Regents of the University of Washington in accordance with policies established by the Trustees as provided for in the management contract. The first management contract originated on July 1, 1967, and has been revised and extended several times. The latest contract version extends through June 30, 2010. The contract allows for a review by both parties for extension until June 30, 2015. The management contract recognizes the Trustees' desire to maintain the Medical Center as a means of meeting King County government's desire to provide the community with a resource for health services and the University's desire that the Medical Center be maintained as a continuing resource for education, training, and research.

The general conditions within the management contract specify that King County will retain title to all real and personal properties acquired for King County with Medical Center capital or operating funds. However, the Medical Center retains the rights of ownership to these real and personal properties and records these assets on their books. The Trustees determine major institutional policies and retain control of programs and fiscal matters. King County retains ultimate control over capital programs and capital budgets for buildings and renovations. The Trustees agree to secure the University's recommendations on any changes to the above. The Trustees are accountable to the public and King County government for all financial aspects of the Medical Center's operation and agree to maintain a fiscal policy which keeps the essential operating program and expenditures within the limits of the operating income. In maintaining a balanced budget fiscal policy, the Trustees agree to adopt standards of patient care developed in cooperation with the University. The University provides for the rendering of medical, dental, and other professional services in the Medical Center and professional and hospital services by University personnel and overall management services. A special account is maintained with the University to receive reimbursement payments from the Medical Center's operating account and to pay for the costs of all services and expenditures provided by the University.

The Trustees and the University establish and maintain operational standards for all teaching and patient care that meet the requirements of such approval agencies as the Joint Commission on Accreditation of Healthcare Organizations. The Trustees control the use of all physical facilities and establish overall space-use policies and guidelines in support of the Medical Center's programs. The University manages the Medical Center so as to retain its institutional identity in a manner which, to the extent of the funds available to the Medical Center, will achieve the aims of the Trustees to meet their community obligation and provide services to address the community's needs, as identified in the Medical Center's mission statement. Additionally, the management contract requires the University "to provide hospital services, including management under the direction of a hospital administrator for the hospital, to provide for the rendering of medical services in connection with the hospital and to provide for the conduct of teaching and research activities by the University in connection with the hospital."

The Medical Center is the only Level I adult and pediatric trauma center in the Washington, Alaska, Montana, and Idaho region. In addition to trauma services, the Medical Center is a comprehensive inpatient and outpatient health care facility. Its primary mission is to provide and teach exemplary patient care and to provide health care to those patients King County is obligated to serve. As determined by the Trustees and within available resources, the Medical Center gives priority to patient populations that include: persons incarcerated in the King County Jail; mentally ill patients, particularly those treated involuntarily; persons with sexually transmitted diseases; substance abusers; indigents without third-party coverage; non-English speaking poor; trauma, burn treatment, specialized emergency care; victims of domestic violence; and victims of sexual assault. While maintaining a priority commitment to patients and programs in these categories, the Medical Center also serves a broad spectrum of patients to maintain a balanced clinical program and fiscal viability.

The Medical Center also serves as a clinical teaching and research resource for students and faculty of the University of Washington School of Medicine (UWSOM). The Medical Center has approximately 485 attending physicians who are full-time faculty members at UWSOM.

The State Legislature has appropriated funds to the University on a biennial basis for the continuing operations of the Medical Center as a resource for teaching and research. Allocation of state-appropriated funds is explained in note 3.

(2) Summary of Significant Accounting Policies

(a) Medical Center Records

The Medical Center, as a county hospital within the Municipal Corporation of King County, maintains its own distinct set of accounting records.

(b) Accounting Standards

The Medical Center's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB).

(c) Accrual Basis

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. The Medical Center reports as a business type activity, as defined by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from amounts provided in the accompanying financial statements.

(e) Capital Assets

Land, buildings, and equipment are stated at historical cost. Improvements and replacements of buildings and equipment are capitalized. Maintenance and repairs are expensed. The provision for depreciation is determined by the straight-line method, which allocates the historical cost of capital assets over their estimated useful life. The estimated useful lives used by the Medical Center are as follows:

Land improvements	25 years
Buildings, renovations, and furnishings	5 – 50 years
Fixed equipment	5 – 25 years
Movable equipment	3 – 20 years
Leasehold improvements	The shorter of the lease term or useful life

Interest cost incurred on funds borrowed by the Medical Center during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during 2009 and 2008.

The cost of land, buildings, and equipment sold or retired, and the related accumulated depreciation, are removed from the accounts, and the resulting gain or loss is recorded as nonoperating income or expense.

(f) Federal Income Taxes

The Medical Center, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code.

(g) Cash and Cash Equivalents

Cash and cash equivalents are primarily comprised of investments held in an external investment pool managed for the Medical Center by King County. These investments consist of pooled investment funds of commercial paper, government obligations, bankers' acceptances, certificates of deposit and repurchase agreements, and are carried at fair market value.

The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance

Committee (EFC). All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

The King County Investment Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values.

The Medical Center has unrestricted access to these investments at its discretion and without limitation, and as such these investments are considered cash equivalents. The Medical Center had cash equivalents of $114,124 and $124,073 as of June 30, 2009 and 2008, respectively.

(h) Assets Whose Use is Limited

Assets whose use is limited include designated unrestricted assets set aside by the Trustees for future capital and program purposes over which the Trustees retain control and may at its own discretion subsequently use for other purposes; investments restricted for use by creditors, grantors, or contributors external to the Medical Center; and investments restricted for capital purchases representing unspent bond proceeds, required capital funding by the Medical Center and interest earnings thereon by King County. Investments are held in an external investment pool, managed for the Medical Center by King County and are carried at fair market value.

Disclosure requirements related to investment risk, credit risk, interest rate risk, foreign currency risk and deposit risk are applicable to the primary government which, as it relates to the Medical Center, is King County.

(i) Charity Care

The Medical Center provides care without charge or at amounts less than established rates to patients who meet certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify for charity care, they are not reported as revenue.

(j) Net Assets

Net assets of the Medical Center are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets (expendable and nonexpendable) are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. When a restriction expires, the expense incurred will first reduce restricted net assets. Restricted net assets are reduced by any liabilities payable from restricted assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

(k) Operating Revenues and Expenses

The Medical Center's statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing healthcare services – the Medical Center's primary business. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values. Nonexchange revenues, such as contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

(l) Supplies Inventory

Supplies inventory, consisting principally of surgical, medical, and pharmaceutical supplies, is carried at the lower of cost (first-in, first-out (FIFO) or average cost methods) or market.

(m) Provision for Uncollectible Accounts

The Medical Center provides an allowance for potential uncollectible patient accounts receivable whereby such receivables are reduced to their estimated net realizable value. The Hospital estimates this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of co-payments to be made by patients with insurance and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process.

(n) Compensated Absences

The Medical Center's employees earn vacation days at varying rates depending on employment type and years of service. Accrued vacation is reported as a current liability as generally employees utilize their vacation days within the following year.

(o) Recently Adopted Accounting Standards

In July 2004, GASB issued statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). GASB 45 is effective for the year ended June 30, 2008. This statement requires the recording of the accumulated liability for retiree health care and life insurance costs, which the University subsidizes.

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). All University of Washington employees, including Medical Center employees, are employees of the State of Washington. State of

Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

An actuarial study performed by the Washington Office of the State Actuary calculated the total OPEB obligation of the State of Washington. Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's nor the Medical Center's financial statements. This liability is recorded at the statewide level. The Medical Center was billed and paid $38,828 and $44,012, respectively, for health care expenses for the years ended June 30, 2009 and 2008, respectively, which included its funding of the OPEB liability.

In June 2007, the GASB issued GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets. This statement provides guidance on the recognition, initial measurement, and amortization of intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is effective for financial statements for periods beginning after June 15, 2009. The Medical Center is currently evaluating the impact of the adoption of this standard will have on its future financial statements.

In March 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. This statement is effective upon issuance. The adoption of this standard did not have a material impact on the Medical Center's financial statements.

In March 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. This statement is effective upon issuance. The adoption of this standard did not have a material impact on the Medical Center's financial statements.

(3) State Appropriation

An appropriation is made by the Washington State Legislature to the University on a biennial basis. The Medical Center is designated as a division of the major program "hospitals" included within the total appropriation. This appropriation is specifically designated by the State for the training of future healthcare professionals and to upgrade the skills of current practitioners. The State warrant is transmitted to the Medical Center for deposit into its operating account and is recorded as operating revenue in the accompanying statements of revenues, expenses, and changes in net assets. The Medical Center received payments through June 2009 totaling $7,934 and payments through May 2008 totaling $7,740 for the years ended June 30, 2009 and 2008, respectively.

(Dollar amounts in thousands)

(4) Net Patient Service Revenues

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2009 and 2008, net patient service revenue includes approximately $1,264 and $3,256, respectively, relating to prior years' Medicare cost report settlements and revised estimates, including disproportionate share reimbursement, and other third-party settlements not separately discussed in note 4.

A significant portion of the services of the Medical Center are provided to Medicare inpatients under prospective payment systems which provide for reimbursement, based on diagnosis-related groupings (DRGs), that includes payments for capital-related costs and certain medical education costs. Such DRG payments are prospectively established and are generally less than the Medical Center's actual charges for its services. Payments for Medicare outpatient laboratory services are based on a fixed fee schedule. Other outpatient services are paid based upon a second prospective payment system known as Ambulatory Payment Classes (APCs). Payment for inpatient psychiatric care has transitioned from defined allowable costs to a prospective payment system that began in 2009. Effective July 1, 2002, Medicare began a third prospective payment system based upon case mix groups (CMGs) for reimbursement of inpatient rehabilitation services. Payments for other Medicare outpatient services are based on defined allowable costs.

Net patient service revenue is as follows:

		2009	2008
Gross patient service revenues	$	1,323,369	1,209,719
Deductions from gross patient service revenues:			
Charity		(155,174)	(120,352)
Contractual discounts		(482,773)	(423,005)
Bad debt		(57,340)	(76,271)
		(695,287)	(619,628)
Net patient service revenues	$	628,082	590,091

In 2005, the State of Washington submitted and CMS approved a State Plan Amendment that replaced Intergovernmental Transfers (IGTs) with Certified Public Expenditures (CPE) as a mechanism for funding the required local share of Medicaid inpatient program costs for certain public hospitals. The new CPE program was effective July 1, 2005 and has been approved to continue through fiscal year 2011. Under

CPE, Disproportionate Share Payments (DSH) are the lesser of qualifying uncompensated care cost or the hospital's specific limit. The Medical Center received $33,672 and $31,393 in DSH funding under this program for the years ended June 30, 2009 and 2008, respectively. These amounts are included in net patient service revenues in the accompanying statements of revenues, expenses and changes in net assets.

In each year since the inception of the CPE program, the State budget has included a hold harmless provision. The intent of the legislature is that hospitals that participate in the CPE program receive no less in inpatient Medicaid program payments than they would have received under the methodology used to pay other hospitals. In addition, the hold harmless provision ensures that participating hospitals receive no less in DSH payments than they did prior to CPE program inception (discussed above). In the event of a shortfall between CPE program component payments and the hold harmless baseline amount, the difference is paid to the hospitals as a grant from state only funds. The Medical Center received $23,179 and $42,322 in state grants for the years ending June 30, 2009 and 2008, respectively. The state grant funds are included in net patient service revenues in the statements of revenues, expenses and changes in net assets.

For each payment to a hospital in the program, only the federal matching portion of the payment is remitted to the hospital; the state portion is funded through CPE. During the service year, the Medical Center estimates the expected final settlement amount based on the difference between year-to-date CPE payments received and the expected hold harmless baseline amount to determine the appropriate amount of revenue to be recognized and any required reserve. The Medical Center has closely monitored this calculation over the past four years, including the current year.

The final hold harmless baseline for each fiscal year is determined at the end of the following 18 months. Any additional state grant payment required will be made at that time and any overpayments will be recouped. For the years ended June 30, 2009 and 2008, net patient service revenue includes approximately $4,455 and $650, respectively, of additional revenue relating to prior year's estimate. In addition to the 18 month settlement timeframe, there is a potential for additional settlement requests resulting from settlements of cost reports and potential reopenings of those cost reports which would impact the ratio of cost to charges and therefore impact the overall final hold harmless settlement. This timeline of three years of potential reopening of costs reports further extends the potential exposure of these reserves. For fiscal years 2008 and 2009, the final settlement will be determined in the spring of 2011 and 2012, respectively.

An additional source of funding from the state that the Medical Center was eligible for in both 2009 and 2008 is the State's Trauma Enhancement program. This program allocates funding to hospitals providing trauma services. Participating hospitals receive a pro-rata share of the pool appropriated for this program based on their portion of total claims submitted. The Medical Center received $8,258 and $8,633 for the years ended June 30, 2009 and 2008, respectively. The Medical Center also received additional trauma grants from the State in the amount of $2,431 and $2,348 for each of the years ended June 30, 2009 and 2008, respectively, which is included in net patient service revenues in the statements of revenues, expenses and changes in net assets.

(Continued)

During the year ended June 30, 2009, the Medical Center was eligible for Federal Stimulus funding. This funding represented Medicaid Title XIX payments and reduced the CPE state grant and DSH payments. The Medical Center received $6,311 under this program for the year ended June 30, 2009, which is included in net patient service revenues in the statements of revenues, expenses and changes in net assets.

The Medical Center receives funding under its Healthy Options Graduate Medical Education program. The funding is intended to help defray the costs associated with being a teaching hospital. The Medical Center received $2,905 and $2,475 under this program for the years ended June 30, 2009 and 2008, respectively, which is included in net patient service revenues in the statements of revenues, expenses and changes in net assets.

(5) Care to the Underserved and Community Benefits

The Medical Center is a nationally recognized academic medical center offering world–class specialty and primary care. The Medical Center is an integral part of UW Medicine. UW Medicine is comprised of University of Washington Medical Center (UWMC), the Medical Center, University of Washington School of Medicine (UWSOM), UW Physicians (UWP), and the UW Physicians Network (UWPN) neighborhood clinics.

Academic medicine is the one arena where teaching, research and clinical practice come together to provide cutting-edge research, innovative patient care and education of the next generation of caregivers. UW Medicine is a national leader in biomedical research and is recognized as the nation's best medical school for training primary care physicians. The Medical Center, as one of the two medical centers operated by UW Medicine, leads the region in the introduction and application of diagnostic and treatment services.

The Medical Center contributes to the community as the only Level I adult and pediatric trauma center and regional burn center serving Washington, Alaska, Montana and Idaho, and as an essential component of the UW Medicine academic enterprise. Contributions to the community include the following:

(a) Care to the Elderly and Underserved

The Medical Center serves a patient population that draws from a multi-state area. This population reflects an increasing number of patients who are part of government sponsored programs like Medicare and Medicaid. Medicare and Medicaid revenues represented 51% of gross patient revenues in both the years ended June 30, 2009 and 2008, respectively. Care for the elderly and care for patients at or below the poverty level often involves nursing support, diagnostic testing and aggressive treatments not required by the average patient. The Medical Center and other academic hospitals serve as safety net hospitals to patients with these special needs. The most recent data available from the Washington Department of Health indicates that the Medical Center itself provides more than 21% of all charity care in the state of Washington for calendar year 2007.

The Medical Center sees some of the most severely ill Medicare and Medicaid patients in the state. The most recent data available from the Washington Department of Health indicates that Medicare and Medicaid inpatients seen at the Medical Center in calendar year 2008 had a case mix index of 1.707, 58% higher than the hospital statewide average of 1.077.

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include charges foregone for services and supplies furnished under its charity care policy to the uninsured and the underinsured. The charges associated with charity care provided by the Medical Center were $128,476 and $96,822, respectively, for the years ended June 30, 2009 and 2008.

In addition, the Medical Center maintains records on uncompensated care related to state-funded Medicaid patients to identify the difference between federal and state Medicaid reimbursement levels. The charges associated with uncompensated care were $26,698 and $23,530, respectively, for the years ended June 30, 2009 and 2008.

Unsponsored revenue is composed of charity care and uncompensated care. The share of unsponsored revenue as a percentage of gross revenue decreased from 12.49% in 2008 to 12.36% in 2009. This decrease in the percentage of unsponsored revenue represents about $1.7 million in gross charges for the fiscal year ended June 30, 2009. This change in unsponsored revenue may be attributed to the Medical Center working with other community hospitals and other providers to appropriately share in the cost of providing care to these patients.

In fiscal year 2007, HFMA's Statement 15: *Valuation and Financial Statement Presentation of Charity Care and Bad Debt by Institutional Healthcare Providers* (Statement 15) was updated to require hospitals to report the cost of charity care. Statement 15 allows charity care costs to be estimated using the best data and method available, if actual costs are unknown and/or unavailable. The Medical Center estimates the cost of charity care and uncompensated care using its estimated Medicaid cost to charge ratios of 47.2% and 48.8% for the fiscal years ending June 30, 2009 and 2008, respectively. For fiscal year 2009, applying the Medical Center's Medicaid cost to charge ratio of 47.2% to total charges for charity and uncompensated care of $155,174 results in a cost of charity care and uncompensated care of $73,242. For fiscal year 2008, applying the Medical Center's Medicaid cost to charge ratio of 48.8% to total charges for charity and uncompensated care of $120,352 results in a cost of charity care and uncompensated care of $58,732.

(b) Medical Education

The Medical Center and UWMC are the largest training sites for UWSOM, a regional medical school serving the five-state area of Washington, Wyoming, Alaska, Montana and Idaho. This year the Medical Center sponsored approximately 252 School of Medicine residents and fellows. The Medical Center also sponsors training for other Health Sciences students including students from the Schools of Dentistry, Nursing, Social Work, Pharmacy, Public Health and Community Medicine.

(c) Research

The research conducted by UW Medicine faculty has contributed to the advancements in scientific knowledge and the prevention and treatment of disease. Examples of scientific innovation at UW Medicine include the development of kidney dialysis, bone marrow transplantation, and the use of medical ultrasound. Advancements in research result in both humanitarian and economic returns to the region, nation, and world. Seattle is one of the leading biotech centers in the world in large part due to UW Medicine's preeminent position in biomedical sciences, including emerging areas such as genomics and proteomics. The Medical Center is a critical site for UW Medicine research.

(d) Outreach and Public Service

The Medical Center provides a wide range of patient-centered community outreach programs. These services include disease related support groups, community newsletters, lecture series, and conferences. The Medical Center is committed to strengthening the relationship between care providers, patients and their families. Patient and family volunteers are recruited as advisors and work with the Medical Center staff to provide input on health care programs and policies, review educational materials, serve on committees and participate in discussion groups designed to improve the patient experience at the Medical Center.

(Dollar amounts in thousands)

(6) Capital Assets

The Medical Center's land, buildings, and equipment accounts and the related accumulated depreciation for the years ended June 30, 2009 and 2008 are set forth below:

	2009				
	Balance June 30, 2008	Additions	Transfers	Retirements	Balance June 30, 2009
Land	$ 1,586	—	—	—	1,586
Land improvements	912	—	3,822	—	4,734
Buildings, renovations, and furnishings	191,784	—	195,644	—	387,428
Fixed equipment	132,974	—	7,800	—	140,774
Major movable equipment	165,204	10,823	16,824	(2,178)	190,673
Leasehold improvements	946	7,256	10	—	8,212
Construction in progress	216,268	22,525	(224,100)	—	14,693
Total at historical cost	709,674	40,604	—	(2,178)	748,100
Less accumulated depreciation for:					
Land improvements	(544)	(240)	—	—	(784)
Buildings, renovations, and furnishings	(94,955)	(12,368)	—	—	(107,323)
Fixed equipment	(83,696)	(6,276)	—	—	(89,972)
Major movable equipment	(111,228)	(16,632)	—	1,985	(125,875)
Leasehold improvements	(499)	(99)	—	—	(598)
Total accumulated depreciation	(290,922)	(35,615)	—	1,985	(324,552)
Capital assets, net	$ 418,752	4,989	—	(193)	423,548

(Dollar amounts in thousands)

		2008				
		Balance June 30, 2007	**Additions**	**Transfers**	**Retirements**	**Balance June 30, 2008**
Land	$	1,586	—	—	—	1,586
Land improvements		912	—	—	—	912
Buildings, renovations, and furnishings		189,051	3	2,730	—	191,784
Fixed equipment		132,140	4	830	—	132,974
Major movable equipment		147,864	26,290	2,381	(11,331)	165,204
Leasehold improvements		714	—	232	—	946
Construction in progress		163,396	59,045	(6,173)	—	216,268
Total at historical cost		635,663	85,342	—	(11,331)	709,674
Less accumulated depreciation for:						
Land improvements		(514)	(30)	—	—	(544)
Buildings, renovations, and furnishings		(88,988)	(5,967)	—	—	(94,955)
Fixed equipment		(77,810)	(5,886)	—	—	(83,696)
Major movable equipment		(107,789)	(14,179)	—	10,740	(111,228)
Leasehold improvements		(415)	(84)	—	—	(499)
Total accumulated depreciation		(275,516)	(26,146)	—	10,740	(290,922)
Capital assets, net	$	360,147	59,196	—	(591)	418,752

Included in board-designated assets is $2,718 of property held for future use, net of $83 accumulated depreciation as of both June 30, 2009 and 2008, respectively.

(Dollar amounts in thousands)

(7) Board-Designated and Restricted Assets

(a) Assets Whose Use is Limited

Assets whose use is limited consists of the following, as of June 30:

		2009	2008
Board-designated assets:			
Pooled investments	$	71,646	72,438
Receivables and other		218	279
Property held for future use, at cost, less accumulated depreciation		2,718	2,718
Total board-designated assets		74,582	75,435
Restricted cash and investments:			
Investments restricted for capital by King County		14,871	15,699
Investments restricted by donor		10,467	9,627
Total restricted assets		25,338	25,326
Total assets whose use is limited	$	99,920	100,761

(b) Board-Designated Assets

Certain assets have been designated by the Trustees for specific purposes. These assets are comprised of cash, cash equivalents and other. The assets by designated purpose are as follows as of June 30:

		2009	2008
Commuter service fund	$	5,751	4,561
Development office fund		2	—
Self-insurance fund		1,128	1,099
Walter Scott Brown property and rental receivables		2,722	2,726
Planned capital and services component		4,397	4,284
Equipment fund		20,312	9,096
Building repair and replacement fund		8,311	9,578
Capital Program Reserves		31,959	44,091
Total	$	74,582	75,435

(c) *Investments Restricted for Capital and by Donor*

Investments restricted for capital are comprised of investments held in an external investment pool, managed for the Medical Center by King County. The balance represents unspent bond proceeds, required capital funding by the Medical Center (note 9) and interest earnings thereon. Access to these investments is restricted by King County for designated capital projects. Investments restricted by donor represent assets whose use is restricted by creditors, grantors, or contributors external to the Medical Center. These investments consist of pooled investment funds of commercial paper, government obligations, bankers' acceptances, certificates of deposit, and repurchase agreements, and are carried at market value.

(d) *Impaired Investments*

Between August 2007 and January 2008, four commercial paper investments held in the investment pool by King County with an original par value of $207 million were identified as being impaired. As of September, 2009, King County has participated in restructuring auctions and has recovered a total of $75.2 million, or about 50% of the adjusted par value on three of the four impaired investments.

The remaining impaired investment is not expected to be restructured until late 2009 at the earliest. Due to the stressed market condition for this type of security, it is difficult to predict what King County may eventually recover from the upcoming restructuring. However, recent financial analysis performed by King County indicated a recovery range between 50% and 76%. The Medical Center had an unrealized gain of $3,048 on its investment in the King County pool as of June 30, 2009 which includes its share of the impaired investments.

For the years ended June 30, 2009 and 2008 the King County investment pool had approximately $4.2 billion in total assets. The impaired commercial paper investments represent 1.1% and 4.4% of this total as of June 30, 2009 and 2008, respectively. The Medical Center currently invests approximately $208.2 million within the pool, representing approximately 4.9% of the total pool value. The Medical Center recognized $3,894 as realized losses on its investment in the King County pool for the year ended June 30, 2009. These losses were included within interest income, net on the statements of revenues, expenses, and changes in net assets.

(8) Professional Liability Insurance

The Medical Center participates in the professional liability program of the University. The University's professional liability program currently includes self-insured and commercial excess coverage components.

The Medical Center's annual funding to the professional liability program is determined by the University administration using information from an annual actuarial study. The actuary discounts funding needs by approximately 7.0% for fiscal years 2009 and 2008 in recognition of the expected earnings of the self-insurance fund. In addition to the University, the participants in the professional liability program include the Medical Center, the UW Physicians, Children's University Medical Group, UWPN, Associated

(Dollar amounts in thousands)

University Oral Surgeons and UWMC. The various participants in the program contribute into the self-insurance fund and a share of the expenses of the Health Sciences Risk Management Office.

The Medical Center's pro rata share of premiums paid to the self-insurance revolving fund were $1,681 and $1,683 in 2009 and 2008, respectively, and is shown in the supplies and other expenses line of the statements of revenues, expenses, and changes in net assets.

(9) Noncurrent Liabilities

(a) Long-Term Debt

Long-term debt consists of the following as of June 30:

		2009	2008
Long-term liability to King County related to:			
2007 Refinance of 1996 Series B Bonds, 5.0%; annual principal payments of $55 through 2010	$	55	110
2007 Refinance of 1997 Series G Bonds, 4.5% to 5.0%; annual principal payments ranging from $445 to $695 through 2017, including premium of $94 as of June 30, 2009		4,623	5,048
2001 General Obligation Bonds of King County, 3.8% to 5.0%; annual principal payments ranging from $110 to $190 through 2021		1,880	1,985
1999 Series A General Obligation Bonds of King County, 4.0% to 5.3%; annual principal payments ranging from $108 to $125 through 2012		437	532
		6,995	7,675
Less current portion		(718)	(673)
	$	6,277	7,002

In fiscal year 1998, King County issued $7,800 of 1997 Series G General Obligation bonds at a premium of $57 to be used for the construction of the Medical Center's View Park II Garage. In fiscal year 2002, King County issued an additional $2,500 of General Obligation bonds to also be used for the construction of the Medical Center's Viewpark II Garage. These bonds are due over a 20-year period and the incremental parking revenues are the source of the Medical Center's funding to retire the debt.

King County also issued $959 of 1999 General Obligation bonds to partially refund the 1993 Series A General Obligation Bonds. As a result of this funding, approximately $105, the difference between the reacquisition price and the net carrying amount of the new debt liability was deferred and reflected as an increase in the new debt liability.

(Dollar amounts in thousands)

In fiscal year 2007, King County refinanced 1996 Series B Refunding bonds and the 1997 Series G General Obligation bonds. As a result of this funding, approximately $125, the difference between the reacquisition price and the net carrying amount of the new debt liability was deferred and reflected as a reduction in the new debt liability.

The Medical Center reflects long-term liabilities to King County on its balance sheet for debt service related to their bond issues.

(b) Long-Term Debt Maturities

Annual debt service requirements to maturity for the general obligation and refunding bonds are as follows:

		Principal	Interest	Total
Years ending June 30:				
2010	$	718	312	1,030
2011		703	278	981
2012		748	249	997
2013		790	211	1,001
2014		700	181	881
2015 – 2019		2,705	418	3,123
2020 – 2022		540	42	582
Net		6,904	1,691	8,595
Less current portion		(718)	(312)	(1,030)
Add unamortized premiums and loss on refunding, net		91	—	91
Long-term debt, net of current portions	$	6,277	1,379	7,656

The cost of obtaining debt is deferred and amortized over the term of the related debt.

(Dollar amounts in thousands)

(c) Changes in Noncurrent Liabilities

Changes in the Medical Center's long-term liabilities during the fiscal years ended June 30, 2009 and 2008 are summarized below:

	2009					
		Balance June 30, 2008	Increases	Decreases	Balance June 30, 2009	Amounts due within one year
Long-term liability to King County related to:						
2007 Refinancing of 1996 Series B Refunding Bonds	$	110	—	(55)	55	55
2007 Refinancing of 1997 Series G General Bonds		5,048	—	(425)	4,623	445
2001 General Obligation Bonds		1,985	—	(105)	1,880	110
1999 Series A General Obligation Bonds of King County		532	—	(95)	437	108
Deferred rent		4,651	1,770	(176)	6,245	175
Deferred revenue		424	—	(140)	284	—
Total noncurrent liabilities	$	12,750	1,770	(996)	13,524	893

(Dollar amounts in thousands)

	2008				
	Balance June 30, 2007	Increases	Decreases	Balance June 30, 2008	Amounts due within one year
Long-term liability to King County related to:					
2007 Refinancing of 1996 Series B Refunding Bonds	$ 165	—	(55)	110	55
2007 Refinancing of 1997 Series G General Bonds	5,894	—	(846)	5,048	410
2001 General Obligation Bonds	2,085	—	(100)	1,985	105
1999 Series A General Obligation Bonds of King County	623	—	(91)	532	103
Deferred rent	4,827	—	(176)	4,651	175
Deferred revenue	435	—	(11)	424	—
Total noncurrent liabilities	$ 14,029	—	(1,279)	12,750	848

(d) *Long-Range Capital Improvement Plan*

Ordinance 2000-0368 authorized a special election to be held in conjunction with the general election on September 19, 2000 for the purpose of voter consideration of a general obligation bond of $193,130 to pay for seismic and public health and safety improvements for the Medical Center and the Medical Examiner. The voters (61%) approved the issuance of the general obligation bond.

Although the 2000 voter approved bond proposal requested approval of a total amount equaling $193,130, multiple bond sales were anticipated to comply with federal IRS regulation regarding timing of the use of the funds. The originally proposed schedule for the sales was:

2001	$ 28,800
2004	95,200
2007	67,200
Net bond proceeds	$ 191,200
Including underwriters discount	$ 193,130

(Dollar amounts in thousands)

Bonds in the amount of $29,130 were issued on January 22, 2001. Bonds in the amount of $110,174 were issued on May 4, 2004. Bonds in the amount of $54,121 were issued on September 14, 2004. King County has assumed responsibility for repayment of all of the associated debt. Total expenditures for the project were $221,000 and the project was completed in September 2008. This project cost includes $31,208 for the initial phase of construction of the Ninth and Jefferson Building.

Interest income on unspent bond project funds is reflected as capital contributions in the accompanying statements of revenues, expenses and changes in net assets as the interest earned on these funds is restricted by King County for the capital project. Interest income recognized as capital contributions was $1,544 for the year ended June 30, 2008. There was no interest income recognized as capital contributions for the year ended June 30, 2009.

(10) Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of patient accounts receivable at June 30, 2009 and 2008 was as follows:

	2009	2008
Medicare	21%	22%
Medicaid	22	21
Self pay	15	18
Other third-party payors and patients	42	39

(11) Fair Value of Financial Instruments

The estimated fair value of certain financial instruments is reflected in the accompanying balance sheets in two ways. The carrying amount of cash and cash equivalents, patient accounts receivable, receivable from contractual agencies, accounts payable and accrued expenses, and payable to contractual agencies is assumed to approximate fair value of these instruments and is reflected accordingly in the balance sheets. Fair values of investments and assets limited as to use are based on quoted market prices, if available, or estimated using quoted market prices for similar securities and are reflected in the balance sheets at these amounts.

Fair value of the Medical Center's long-term debt is estimated based on quoted market prices, when available, or on the discounted value of the future cash flows that would theoretically be paid using current rates offered to the Medical Center for debt with the same remaining maturity.

The fair value of the Medical Center's bonds outstanding was $7,376 and $7,840 at June 30, 2009 and 2008, respectively. The carrying amounts reported in the notes to the financial statements were $6,995 and $7,675 at June 30, 2009 and 2008, respectively.

(Dollar amounts in thousands)

(12) Commitments and Contingencies

(a) Operating Leases

The Medical Center has seven operating space leases that expire over the next three years. The leases generally contain renewal options for periods ranging from one to five years and require the Medical Center to pay all executory costs such as maintenance and insurance. Rental payments under operating leases are recognized on a straight-line basis over the term of the lease including periods of free rent and consists only of minimum rentals as there are no contingent rentals associated with these leases.

Additionally, the Medical Center has two operating equipment leases for medication dispensing systems that expire over the next five years. The leases generally contain renewal options for periods ranging from one to five year periods and require the Medical Center to pay maintenance costs while insurance is held by the vendors. Rental payments are recognized over the term of the lease and consist only of minimum rentals as there are no contingent rentals associated with these leases.

The minimum annual payments for noncancelable operating space and equipment leases are as follows:

		Operating leases
Fiscal year ending June 30:		
2010	$	1,131
2011		932
2012		887
2013		487
2014		50
Thereafter		—
	$	3,487

Operating lease expense for both noncancelable and cancelable operating leases for the years ended June 30, 2009 and 2008 was $10,949 and $9,654, respectively.

(b) Regulatory Environment

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity within the healthcare industry continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Medical Center received a subpeona from the Department of Health and Human Services in November of 2007 which included the production of documents relating to the Medicare program for the years 1997 to 2004, primarily focusing on outlier payments. A special assistant attorney general has been retained to assist with this issue and information sharing continues. The Medical Center believes that it is not possible at this time to make a judgment about the outcome of this inquiry.

(c) Litigation

The Medical Center is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect to the Medical Center's future financial position or results of operations.

(d) Construction Commitments

The Medical Center has committed to various remodel projects during fiscal year 2009. At fiscal year-end 2009, the future commitments for these projects total approximately $10,774.

(e) Patricia Bracelin Steel Building

In June 2004, construction was completed on the Patricia Bracelin Steel building, which is owned by Broadway Office Properties. The building contains 156,800 square feet of office space with related parking and is primarily occupied by the Medical Center. The Medical Center took possession of the building in July 2004. King County has entered into a lease with Broadway Office Properties for the building with a 30-year term. The lease qualifies for capital lease treatment and as such the building asset and related lease obligation are recorded by King County based upon the terms of the agreement.

The County Council has directed the Trustees to budget funds, annually, to make the rental payments due under the lease. As the financial obligations of the lease remain the responsibility of King County, the Medical Center accounts for these rental payments as rental expense. Lease payments are approximately $366 per month.

(f) Ninth and Jefferson Building

The Ninth & Jefferson Building (NJB), a fourteen-story medical office building with approximately 440,000 square feet, including 13,300 square feet of retail space, and five levels of underground parking, is located at 908 Jefferson Street in Seattle. The building is substantially complete and several Medical Center departments will be occupying the building. The move-in schedule for the various Medical Center departments and tenants spans from March 1, 2009 through January 31 2010.

(Dollar amounts in thousands)

On September 28, 2006, the Trustees passed a resolution in support of the NJB under the 63-20 financing model. The building owner and lessor is NJB Properties, however the land upon which the building is constructed is owned by King County and leased to NJB Properties under a ground lease, dated November 1, 2006. King County has entered into a lease with NJB Properties for the building with a 30-year term. The lease qualifies for capital lease treatment and as such the building asset and related lease obligation are recorded by King County based upon the terms of the agreement.

The County Council has directed the Trustees to budget funds, annually, to make the rental payments due under the lease. As the financial obligations of the lease remain the responsibility of King County, the Medical Center will account for these rental payments as rental expense. The Medical Center is accruing proportional rental expense on a monthly basis as portions of the building are occupied or available for occupancy. Upon full occupancy of the building, lease payments will be approximately $1,100 per month.

(13) Related Parties

The Medical Center has engaged in a number of transactions with related parties including other UW Divisions as well as King County. These transactions are recorded by the Medical Center as either revenue or expense transactions because economic benefits are either provided or received by the Medical Center.

(a) The Following is a Summary of Related Party Transactions

Revenue (expense) transactions		2009	2008
Services purchased from the University	$	(2,145)	(2,389)
Services provided to the University		9	9
Services purchased from UWSOM		(43,320)	(37,625)
Services provided to UWSOM		3,552	3,581
Services purchased from VPMA		(5,014)	(4,433)
Services and supplies purchased from the Laundry		(2,443)	(2,326)
Services purchased from and funding provided to UWPN		(800)	(801)
Services purchased from UWP		(12)	(11)
Services purchased from UWMC		(40)	(40)
Services provided to UWMC		1,011	1,008
Services provided to Seattle Cancer Care Alliance (SCCA)		79	56
Services provided to King County		9,050	8,833

(Dollar amounts in thousands)

As of June 30, 2009 and 2008, respectively, the Medical Center has net amounts (due to) or due from related parties for the various transactions described above, which are as follows:

		2009	2008
The University	$	(27,909)	(23,842)
UWSOM		(9,516)	(13,249)
The Laundry		(204)	(281)
UWP		(2)	(1)
UWMC		281	(86)
VPMA		—	19
UWPN		—	22
King County		(8,746)	(5,882)
ALNW		9,316	1,289

(b) ***University of Washington***

The University provides the Medical Center with services and support such as general and professional liability insurance, printing, accounting, temporary help and other administrative and operational services. The amounts paid for these services are included in the related party transactions above.

(c) ***University of Washington School of Medicine (UWSOM)***

The Medical Center purchases a variety of clinical and administrative services from the UWSOM. For example, the Medical Center purchases laboratory services from UWSOM and the Medical Center pays a portion of residents and faculty salaries for clinical and administrative support at the Medical Center. The Medical Center also transfers a portion of their Medicare reimbursement for medical education to UWSOM in support of teaching costs. The amounts paid for these services are shown above.

In June 2004, the Trustees passed a resolution expressing its intent to allocate additional funds to the UWSOM beginning in fiscal year 2005. The intent was to provide funding to support the School's efforts to stabilize faculty recruitment and retention programs, recognizing the essential role of faculty in the University's teaching and clinical service missions. The Trustees passed a clarifying resolution committing $7,000 in funds to the UWSOM to support faculty recruitment and retention. This commitment was included in fiscal year 2005 operating expenses. This commitment will be funded, subject to annual approval by the Trustees, at a range of $1,500 – $3,000 per year for up to five years. As of June 30, 2009, the Trustees have approved and the Medical Center has paid $7,000 in funding and the obligation is now fully paid.

(d) Vice President of Medical Affairs (VPMA)

The office of the Vice President of Medical Affairs of the University provides services to the Medical Center such as news and community relations staffing compliance, medical staff oversight, marketing, information systems services, and other administrative services. The amounts paid by the Medical Center for these services are shown above.

(e) University of Washington Consolidated Laundry (the Laundry)

The Laundry provides laundry services to the Medical Center, UWMC, the Veteran's Administration, UWPN clinics, the University and the amounts purchased are shown above.

(f) UW Physicians Network (UWPN)

UWPN is a network of seven primary care clinics that offer family practice and other primary and ancillary services in neighborhood settings throughout King County. In fiscal year 1996, the Medical Center entered into an agreement (the Original Agreement) with UWSOM, UWMC and UWPN to provide for funding of UWPN.

Based on an amended agreement during fiscal year 2004, the Trustees committed to providing funding of $800 per year beginning in fiscal year 2005. Payment is subject to annual Trustees approval through the normal budgeting process. As of June 30, 2009, there were no plans to revise the agreement.

Funding for the Medical Center's obligation with UWPN related to its fiscal 2009 and 2008 funding agreement is included in the detailed related party transactions above. Also included are payments made to UWPN for specific services provided to the Medical Center.

(g) Airlift Northwest (ALNW)

In 1982, UWMC, the Medical Center and Children's Hospital and Regional Medical Center (CHRMC) founded ALNW as a regional air ambulance system. Since its inception, ALNW has provided critical care and emergency medical transportation via fixed-wing and rotary-wing aircraft primarily to the Pacific Northwest Region. Effective January 1, 2003, ALNW re-organized operations as a nonprofit 501(c)(3) corporation with UWMC, the Medical Center and CHRMC as its initial members. As of June 30, 2009, ALNW has total assets of approximately $18,010 and total liabilities and net assets of approximately $6,727 and $11,283, respectively. As of June 30, 2008, ALNW had total assets of approximately $18,724 and total liabilities and net assets of approximately $8,461 and $10,263, respectively. ALNW recognized net income of approximately $1,020 and a net loss of approximately $4,166 for the years ended June 30, 2009 and 2008, respectively.

The Medical Center has a 70% equity interest in ALNW, however as the Medical Center has one-third representation on the ALNW board of trustees, and so does not possess majority control of the board of trustees, the Medical Center does not consolidate ALNW and is recording its interest under the equity method of accounting. The Medical Center's equity interest of approximately $7,898 and $7,184 at June 30, 2009 and 2008, respectively, is recorded within other assets. This interest includes $626 as the Medical Center's share of net income and $2,916 as the Medical Center's share of net loss for the years ended June 30, 2009 and 2008, respectively. The Medical Center's share of net income or net loss is included in other operating revenues in the statement of revenues, expenses, and changes in net assets. ALNW uses the Medical Center's purchasing system to take advantage of discounted purchases that the Medical Center receives.

The amounts paid for services purchased from and provided to ALNW by the Medical Center are shown above.

(h) King County

King County holds all investment funds on behalf of the Medical Center. King County also processes all actual payments to vendors outside of the UW Divisions. Additional detail describing the Medical Center's position within King County is provided in note 1.

The Medical Center has agreed to provide services on behalf of King County for certain grants and contracts, for which they receive grant revenue from King County. Additionally, the Medical Center has long-term debt contracts with King County in the form of General Obligation Bonds. The terms of these agreements are described in more detail in note 9(a).

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

FEDERAL CFDA #	FEDERAL CFDA TITLE	PASS-THROUGH GRANTOR	CONTRACT ID	CONTRACT PERIOD	HMC ID	PROGRAM DESCRIPTION	COST CENTER	FEDERAL EXPENDITURE
DEPARTMENT OF AGRICULTURE								
10.557	SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN	King County Dept of Public Health	D37928D	07/01/08-12/31/08	18120	Women, Infants & Children (WIC)	7452	45,269.98
			D39089D	01/01/09-06/30/09	18120	Women, Infants & Children (WIC)	7452	43,050.00
							CFDA 10.557 TOTAL:	**88,319.98**
							DEPARTMENT OF AGRICULTURE TOTAL:	**88,319.98**
DEPARTMENT OF HOUSING & URBAN DEVELOPMENT								
14.235	SUPPORTIVE HOUSING PROGRAM	King County Dept of Public Health	D37943D	07/01/08-01/31/09	18500	Pioneer Square - Respite Program	7860	339,394.05
			D39306D	02/01/09-06/30/09	18500	Pioneer Square - Respite Program	7860	224,426.12
							CFDA 14.235 TOTAL:	**563,820.17**
							DEPARTMENT OF HOUSING & URBAN DEVELOPMENT TOTAL:	**563,820.17**
DEPARTMENT OF JUSTICE								
16.575	CRIME VICTIM ASSISTANCE	WA State Dept of Commerce	09-31110-130	07/01/08-06/30/09	18700	HCSATS Core Services	7812	88,041.64
			09-31110-131	07/01/08-06/30/09	18600	CRC Core Services	7866	50,813.57
		Virginia Mason Medical Center	F07-31119-001 [06]	07/01/08-09/30/08	18705	HCSATS OCVA Virginia Mason	7828	6,057.22
			F08-31119-001 [05]	10/01/08-06/30/09	18705	HCSATS OCVA Virginia Mason	7828	18,098.28
			F07-31119-001 [05]	07/01/08-09/30/08	18605	CRC OCVA Virginia Mason	7520	6,238.25
			F08-31119-001 [04]	10/01/08-06/30/09	18605	CRC OCVA Virginia Mason	7520	18,096.78
							CFDA 16.575 TOTAL:	**187,345.74**
							DEPARTMENT OF JUSTICE TOTAL:	**187,345.74**
DEPARTMENT OF HEALTH & HUMAN SERVICES								
93.136	INJURY PREVENTION AND CONTROL RESEARCH AND STATE AND COMMUNITY BASED PROGRAMS	WA State Dept of Commerce	09-31110-130	07/01/08-06/30/09	18700	HCSATS Prevention Services	7812	16,895.00
			09-31110-131	07/01/08-06/30/09	18600	CRC Prevention Services	7866	23,724.61
							CFDA 93.136 TOTAL:	**40,619.61**
93.153	COORDINATED SERVICES AND ACCESS TO RESEARCH FOR WOMEN, INFANTS, CHILDREN, AND YOUTH	King County Dept of Public Health	D37928D	07/01/08-12/31/08	18240	Northwest Family Center	7886	5,326.22
			D39089D	01/01/09-06/30/09	18215	Ryan White Part D - Social Work	7886	46,138.70
					18215	Ryan White Part D - Madison	7621	15,330.62
							CFDA 93.153 TOTAL:	**66,795.54**

HARBORVIEW MEDICAL CENTER
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2009

FEDERAL CFDA #	FEDERAL CFDA TITLE	PASS-THROUGH GRANTOR	CONTRACT ID	CONTRACT PERIOD	HMC ID	PROGRAM DESCRIPTION	COST CENTER	FEDERAL EXPENDITURE
93.224	CONSOLIDATED HEALTH CENTERS (COMMUNITY HEALTH CENTERS, MIGRANT HEALTH CENTERS, HEALTH CARE FOR THE HOMELESS, PUBLIC HOUSING PRIMARY CARE, AND SCHOOL BASED HEALTH CENTERS)	King County Dept of Public Health	D37943D	07/01/08-01/31/09	18500	Pioneer Square - Respite Program	7860	58,279.86
					18505	Pioneer Square - Healthcare for the Homeless	7856	215,535.76
					18510	Pioneer Square - 2nd Ave Clinic	7461	46,195.26
					18515	Pioneer Square - 3rd Ave Clinic	7464	136,819.45
			D39306D	02/01/09-06/30/09	18500	Pioneer Square - Respite Program	7860	45,534.09
					18505	Pioneer Square - Healthcare for the Homeless	7856	138,996.76
					18510	Pioneer Square - 2nd Ave Clinic	7461	31,722.58
					18515	Pioneer Square - 3rd Ave Clinic	7464	91,270.17
							CFDA 93.224 TOTAL:	**764,353.93**
93.230	CONSOLIDATED KNOWLEDGE DEVELOPMENT AND APPLICATION (KD&A) PROGRAM	King County Dept of Community & Human Services	D37622D	07/01/08-12/31/08	15330	WASBIRT	7238	176,015.86
							CFDA 93.230 TOTAL:	**176,015.86**
93.243	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES_PROJECT OF REGINOAL AND NATIONAL SIGINIFICANCE	WA State Dept of Social & Health Services	0761-19990-01	07/01/08-09/30/08	15340	Medical Director Services (WASBIRT)	7238	4,540.05
							CFDA 93.243 TOTAL:	**4,540.05**
93.283	CENTERS FOR DISEASE CONTROL AND PREVENTION INVESTIGATIONS AND TECHNICAL ASSISTANCE	King County Dept of Public Health	D35138 (Yr5)	07/01/08-09/21/08	18550	STEPS to a Healther US	7876	15,107.10
							CFDA 93.283 TOTAL:	**15,107.10**
93.703	ARRA - HEALTH CENTER INTEGRATED SERVICES DEVELOPMENT INITIATIVE	King County Dept of Public Health	D39306D	04/01/09-06/30/09	18517	Pioneer Square - Urban Rest Stop	7465	6,574.18
							CFDA 93.703 TOTAL:	**6,574.18**
93.778	MEDICAL ASSISTANCE PROGRAM	WA State Dept of Social & Health Services	0761-21334	07/01/08-10/31/08	15335	Medical Director Services	7238	7,704.00
			0665-01858	07/01/08-06/30/09	18100	Interpreter Services	8220	846,482.55
			0565-75884-02	07/01/08-06/30/09	18110	Outreach & Linkage	8518	626,735.00
					18105	Community House Calls	8220	90,812.00
					18115	Social Work Match	8200	111,955.00
		King County Dept of Public Health	D37943D	07/01/08-12/31/08	18520	Pioneer Square - Access	7858	16,838.00
			D39306D	01/01/09-06/30/09	18520	Pioneer Square - Access	7858	9,603.00
		Seattle Human Services Dept	DA07-1507	07/01/08-12/31/08	18570	KCCP Medical & Home Care Coord	7834	27,345.20
			DA09-1507	01/01/09-06/30/09	18570	KCCP Medical & Home Care Coord	7834	22,000.02
							CFDA 93.778 TOTAL:	**1,759,474.77**

HARBORVIEW MEDICAL CENTER

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2009

FEDERAL CFDA #	FEDERAL CFDA TITLE	PASS-THROUGH GRANTOR	CONTRACT ID	CONTRACT PERIOD	HMC ID	PROGRAM DESCRIPTION	COST CENTER	FEDERAL EXPENDITURE
93.889	NATIONAL BIOTERRORISM HOSPITAL PREPAREDNESS PROGRAM	Washington State Hospital Association	U3REP080103	07/01/08-06/30/09	18260	ASPR Bioterrorism Prep Program		
						Mobile Satellite Phone	7230	1,474.89
						Pharmaceuticals	7170	6,088.83
						Emergency Prep Training & Travel	7230	31,362.74
						Emergency Prep Supplies	7230	1,713.18
			WSHA 07-08	07/01/08-08/31/08	18265	Regional Medical Resource Center	7230	6,620.03
			WSHA 08-09	09/01/08-06/30/09	18265	Regional Medical Resource Center	7230	45,025.73
		King County Dept of Public Health	HFPEP070011	09/01/08-06/30/09	18262	King Co. Disaster Room Pass-Thru	7230	17,087.67
							CFDA 93.889 TOTAL:	**109,373.07**
93.914	HIV EMERGENCY RELIEF PROJECT GRANTS	King County Dept of Public Health	D36761D	08/01/07-07/31/08	18200	Ryan White Part A		
						Minority AIDS Initiative	7882	2,943.99
			D38308D	07/01/08-02/29/09	18200	Ryan White Part A		
						Ambulatory/Outpatient Medical Care	7620	506,748.26
						Case Management	7882	304,371.52
						Minority AIDS Initiative	7882	59,572.57
						Medical Nutrition Therapy	7620	41,907.13
						Mental Health Therapy/Counseling	7612	153,589.70
			D39193D	03/01/09-06/30/09	18200	Ryan White Part A		
						Ambulatory/Outpatient Medical Care	7620	258,171.29
						Case Management	7882	53,437.40
						Medical Nutrition Therapy	7620	21,606.23
						Mental Health Therapy/Counseling	7612	82,936.30
							CFDA 93.914 TOTAL:	**1,485,284.39**
93.918	GRANTS TO PROVIDE OUTPATIENT EARLY INTERVENTION SERVICES WITH RESPECT TO HIV DISEASE	N/A - Direct Award	6H76HA00198-16-01	07/01/08-12/31/08	18210	Ryan White Part C	7619	224,320.06
			6H76HA00198-17-00	01/01/09-06/30/09	18210	Ryan White Part C	7619	205,284.97
							CFDA 93.918 TOTAL:	**429,605.03**
93.958	BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	WA State Dept of Social & Health Services	0865-36487-01	07/01/08-09/30/08	18765	HCSATS Trauma-Focused Cognitive Behavioral Therapy	7816	41,218.85
			0865-36487-02 to 04	10/01/08-06/30/09	18765	HCSATS Trauma-Focused Cognitive Behavioral Therapy	7816	53,446.15
							CFDA 93.958 TOTAL:	**94,665.00**
93.959	BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	King County Dept of Community & Human Services	D37622D	07/01/08-12/31/08	15320	Adult Outpatient Treatment	7228	3,142.30
			D38694D	01/01/09-06/30/09	15320	Adult Outpatient Treatment	7228	3,430.32
							CFDA 93.959 TOTAL:	**6,572.62**

HARBORVIEW MEDICAL CENTER

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2009

FEDERAL CFDA #	FEDERAL CFDA TITLE	PASS-THROUGH GRANTOR	CONTRACT ID	CONTRACT PERIOD	HMC ID	PROGRAM DESCRIPTION	COST CENTER	FEDERAL EXPENDITURE
						DIRECT AWARDS:		429,605.03
						PASS-THROUGH AWARDS:		4,529,376.12
						DEPARTMENT OF HEALTH & HUMAN SERVICES TOTAL:		**4,958,981.15**
						GRAND TOTAL:		**5,798,467.04**

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as Harborview Medical Center's financial statements. Harborview Medical Center uses the accrual method of accounting.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program's cost. Entire program costs, including Harborview Medical Center's portion, may be more than shown.

Note 3 - Equipment and Supplies Received for Emergency Preparedness & Response Program

Harborview Medical Center received equipment and supplies valued at $40,584.89 from the Washington State Hospital Association in FY09. These purchases were made by WSHA under CFDA 93.889 National Bioterrorism Hospital Preparedness Program.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work in cooperation with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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